

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2971-01  
Bill No.: HB 1278  
Subject: Education, Elementary and Secondary; Taxation and Revenue-General and Income  
Type: Original  
Date: January 21, 2002

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
General Revenue	(\$57,446)	(\$99,418) to (\$2,099,418)	(\$62,439) to (\$2,062,439)
County Foreign Ins.	\$0	\$0 to (\$1,000,000)	\$0 to (\$1,000,000)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$57,446)</b>	<b>(\$99,418) to (\$2,099,418)</b>	<b>(\$62,439) to (\$2,062,439)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
None			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0 to (\$1,000,000)</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 5 pages.

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## **FISCAL ANALYSIS**

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### **ASSUMPTION**

Officials of the **Department of Revenue (DOR)** state this legislation authorizes a tax credit beginning January 1, 2003, equal to 50% of contributions made to a scholarship charity, as long as the donation is not for the direct benefit of a dependent of the taxpayer. The tax credit is non-refundable, but can be carried forward to the next four succeeding tax years. The tax credit must be at least \$100, and cannot exceed \$50,000 per taxable year. A scholarship charity must be exempt from federal taxation and allocate at least 90% of its annual revenue for educational scholarships. The Director of the Department of Economic Development will determine annually which charities in this state qualify for scholarship charities and must equally apportion the tax credits. If not all of the apportioned tax credits are used, then the unused tax credits must be reapportioned. The cumulative amount of tax credits allowed cannot exceed \$2 million.

The number of taxpayers willing to contribute to the scholarship charities and become eligible for this credit is unknown at this time. The Division of Taxation, Personal Tax Bureau will need one Tax Processing Technician I for every 1,680 new credits claimed per year and one Tax Season Temporary for every 75,000 credits claimed per year. Also, one Tax Processing Technician I will be needed for six months for every 20,000 additional individual income tax errors. The Business Tax Bureau will need one Tax Processing Technician I for every 3,680 new credits received and one Tax Processing Technician I for every 12,000 additional corporate tax errors generated from this legislation.

This legislation will require modifications to the income tax system and credit application system. The Division of Taxation estimates these modifications, including programming changes, will require 1,125 hours of programming at a cost of \$38,296. Modifications to the income tax return and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$3,936 is requested for implementation costs.

Based on a previous response to a similar proposal, **Oversight** has allowed the Department of Revenue, State Data Center charges and implementation costs of \$3,936 and 692 hours of programming at a cost of \$34,600. Oversight assumes the DOR could handle the provisions of this proposal with existing resources or request additional staff through the budget process.

Officials of the **Department of Elementary and Secondary Education (DES)** state this proposal authorizes a 50% state income tax credit for contributions to a scholarship charity. The cumulative amount of tax credits for this tax benefit shall not exceed \$2 million per fiscal year. The cumulative amount of tax credits shall be apportioned equally among all qualified scholarship charities.

ASSUMPTION (continued)

The tax credits reduce the income tax receipts flowing to the general revenue fund. More tax credits mean less General Revenue available statewide for state use including education and fully funding the foundation formula. DES assumes this bill would not fiscally impact their agency.

Officials of the **Department of Insurance (INS)** state this bill grants tax credits against premium tax payments (RSMo chapter 148) for contributions to qualified scholarship charities. Maximum credit per taxpayer is \$50,000 a year. Credits are capped at \$2 million a year with a 4 year carryforward.

Tax credits for this legislation would not begin until the 2003 tax year which would be paid in March 2004. Tax credits could potentially be taken by approximately 1,600 insurance companies. Premium tax revenue is split 50/50 between GR and County Foreign Insurance Fund. County Foreign Insurance Funds are later distributed to school districts after they have been collected by the state. Loss of revenue to GR and County Foreign Insurance Fund will occur from this legislation with amount depending on the participation by insurance companies. Loss of revenue is estimated at a range of \$0 to \$ 2 million.

Officials from the **Department of Economic Development (DED)** assume this bill would require DED to establish a program for authorizing scholarship charities and allocating credit amounts to these charities to be authorized as tax credits for donations. The total credit amount is \$2 million per year and DED is authorized to re-allocate credits between approved scholarship charities. DED would have to monitor and oversee the program as well as notify DOR of the credits authorized.

DED assumes the need for one Economic Development Incentive Specialist II plus associated expenses to administer the program. This would include identifying qualifying scholarship charities, allocation of credits and program oversight.

Officials from the **Office of Administration, Division of Budget and Planning** did not respond to our fiscal note request.

**Oversight** has reflected the revenue impact of this proposal as a range of \$0 to (\$2,000,000) for the potential decrease in taxes collected.

**This proposal could result in a decrease in Total State Revenues.**

FISCAL IMPACT - State Government

FY 2003  
(10 Mo.)

FY 2004

FY 2005

**GENERAL REVENUE FUND**

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
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Loss - General Revenue Fund

Income tax credits for charitable scholarships	\$0	\$0 to (\$2,000,000)	\$0 to (\$2,000,000)
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Cost - Department of Revenue

Reprogramming costs	\$0	(\$38,536)	\$0
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Cost - Dept. of Economic Development

Personal Service (1 FTE)	(\$32,021)	(\$39,386)	(\$40,370)
Fringe Benefits	(\$11,531)	(\$14,183)	(\$14,537)
Expense and Equipment	<u>(\$13,894)</u>	<u>(\$7,313)</u>	<u>(\$7,532)</u>
Total - DED costs	<u>(\$57,446)</u>	<u>(\$60,882)</u>	<u>(\$62,439)</u>

**ESTIMATED NET EFFECT ON  
GENERAL REVENUE FUND**

<u>(\$57,446)</u>	<u>(\$99,418 to \$2,099,418)</u>	<u>(\$62,439 to \$2,062,439)</u>
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**COUNTY FOREIGN INSURANCE  
FUND**

Loss - County Foreign Ins. Fund

Tax credits for charitable scholarships	\$0	\$0 to (\$1,000,000)	\$0 to (\$1,000,000)
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**ESTIMATED NET EFFECT ON  
COUNTY FOREIGN INSURANCE  
FUND**

<u>\$0</u>	<u>\$0 to (\$1,000,000)</u>	<u>\$0 to (\$1,000,000)</u>
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FISCAL IMPACT - Local Government

FY 2003 (10 Mo.)	FY 2004	FY 2005
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Loss - local school districts

Tax credits for charitable scholarships	<u>\$0</u>	<u>\$0</u>	<u>\$0 to (\$1,000,000)</u>
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FISCAL IMPACT - Small Business

Small businesses would be expected to be fiscally impacted to the extent they would incur cost for making the voluntary cash contributions and receive benefit from the tax credit for making the contribution.

### DESCRIPTION

This act authorizes a state tax credit for contributions to authorized scholarship charities. To qualify as a scholarship charity, the organization must be a 501(c)(3) charitable organization and must allocate at least ninety percent of its annual revenue for educational scholarships to children attending qualified schools of their choice.

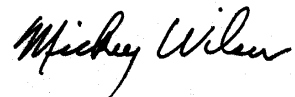
The credit may be claimed, for all taxable years beginning on or after January 1, 2003, in an amount equal to 50% of the taxpayer's contribution to the scholarship charity, but cannot exceed fifty thousand dollars per taxable year for any taxpayer. The credit is not refundable but may be carried over for up to four succeeding taxable years. The cumulative amount of all scholarship charity tax credits is limited to two million dollars per fiscal year. The Director of the Department of Economic Development is authorized to allocate the tax credits as necessary to ensure their maximum use.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

Department of Revenue  
Department of Elementary and Secondary Education  
Department of Insurance  
Department of Economic Development

NOT RESPONDING: Office of Administration, Budget and Planning



Mickey Wilson, CPA  
Acting Director  
January 21, 2002